GROWTH: THE **DIGITAL STRENGTH INDEX**

STAYING ON TOP OF A CONTINUOUSLY EVOLVING MARKETPLACE

Q1 2018

isobar + alpha-DNA

A LOOK BACK AT Q1 2018

For our third Quarterly Report, Isobar and alpha-DNA take a look back at Q1 2018 and analyzed the past quarter's growth and the future quarter's projected growth through a lens of Digital Strength to identify those companies and industries on the right track or at risk.

The web by its very nature creates real-time, comprehensive data about online consumer behavior. Digital behavior is fundamentally correlated with online and offline consumer demand, both in B2C and B2B contexts. Customers not only buy products and services online, but also compare, research, seek support, recommend, and review them, extending the applicability of online behavior into the offline world. Digital is a primary channel for both generating consumer demand and translating consumer demand into revenue. Digital strength is a key driver of revenue, and sharp changes in digital strength often manifest in a company's future revenue performance.

However, market expectations (i.e., sell-side consensus estimates) lack contemporaneous, company-specific, fundamental data. Consumer demand and online engagement metrics across digital sources can better "predict the present" and signal trajectory changes in a company's growth.

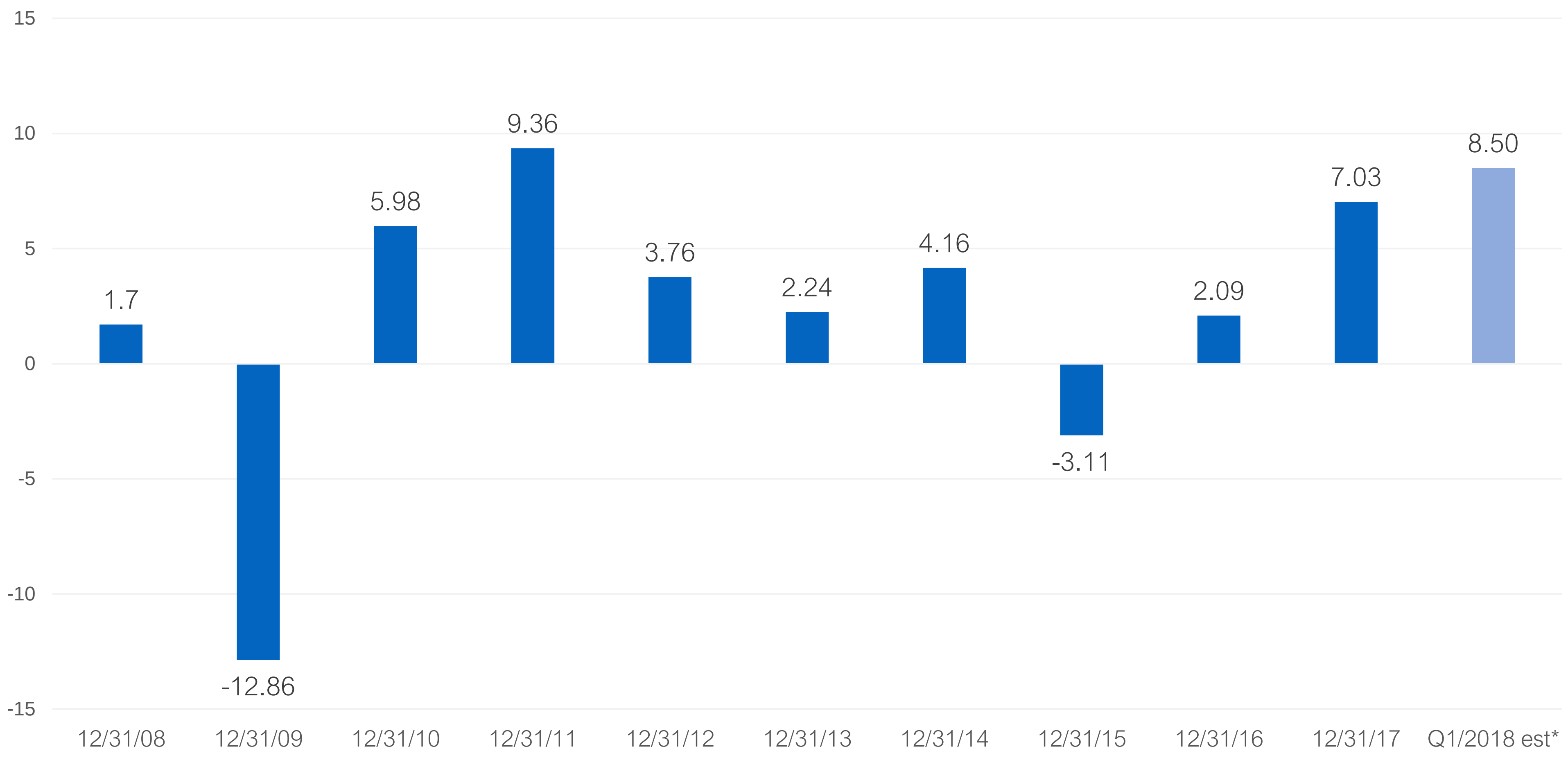
Isobar and alpha-DNA have partnered to create the Digital Strength Index (DSI) for the top 1,000 public companies in the U.S. The Index is based upon over five years of data gathering, analysis, and benchmarking. Between 2012 and 2016, top-ranked stocks based on Digital Strength have grown topline ~10% and beaten quarterly consensus revenue expectations 64% of the time, compared to a decline in topline of ~8% and a revenue beat rate of only 46% respectively for bottom-ranked stocks. Further illustrating the link between Digital Strength and shareholder value, based on this Index, Leaders and Laggards consistently have significantly different stock price appreciation in the following years. This analysis holds regardless of the growth or digital maturity of the sector.

RECORD REVENUE

To contextualize the historic nature of the revenue growth recorded, in the decade after the 2008 financial crash, Q1 2018 will mark the highest revenue growth reported by the S&P since Q3 2011.

Even the % of companies reporting positive revenue surprise (percentage in the high 70s) is historically high. This only reiterates the need for companies to over-deliver against their topline sales expectation and be seen investing behind transformative growth initiatives.

REVENUE GROWTH OVER LAST DECADE



Source: Standard & Poor's, Internal Estimates *

GROWTH REWARDED

Year-to-date 2018, growth-oriented companies continue to be rewarded far better than the rest of the market in terms of their overall stock price performance.

In an economy that is hot, and late in the economic expansion cycle, companies need to be able to continuously accelerate their strong topline revenue growth numbers – or be prepared to get punished by the financial markets. Their stock prices risk declining/underperforming relative to their peers. To hedge this risk, digital-driven customer-experience transformation has to be an integral part of this topline growth imperative in 2018 and beyond.

GROWTH VS. VALUE VS. SPY

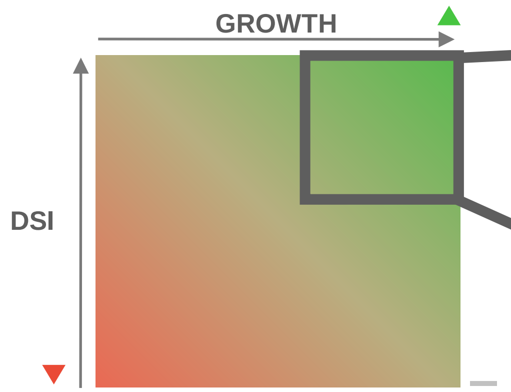
Source: Yahoo Finance in partnership with ChartIQ

OUTPERFORMERS

After our third quarterly report, with more data points, we're now better able to notice outliers on an individual stock basis as well as track which industries in the near term are trending positively both on a digital strength and revenue basis.

Not surprisingly, the upper quartile in high growth and high DSI is dominated by information technology companies, like Amazon, Google, and Salesforce. In general, we would expect these digital-oriented companies to outpace the rest of the market.

But it gets more interesting when we start to see companies that are unexpectedly punching above their weight class. For example, companies like iRobot in Household Appliance, Domino's Pizza in Restaurants, Align Technology in Health Care Supplies, and Lennar in Homebuilding. To us, this demonstrates that these companies are transforming their respective marketplaces by embracing digitally-driven growth as a means to outperform their peers.



SURPRISING INDUSTRIES OF THE PAST THREE QUARTERS:

- Homebuilders
- Semiconductors
- Data Processing
- Agriculture and Construction Machinery
- Brokerage Firms

SAMPLE SET OF TOP DSI PERFORMERS
Q3 2017, Q4 2017, Q1 2018

COMPANY	SECTOR	INDUSTRY
ADOBE	Info Tech	Application Software
ADVANCED MICRO DEVICES	Info Tech	Semiconductors
AGCO	Industrials	Ag & Farm Machinery
ALIBABA	Info Tech	Internet & Direct Marketing Retail
ALIGN TECHNOLOGY	Health Care	Health Care Supplies
ALPHABET	Info Tech	Internet Software & Services
AMAZON	Info Tech	Internet & Direct Marketing Retail
CATERPILLAR	Industrials	Construction Machinery
CHARLES SCHWAB	Financials	Investment Banking & Brokerage
COPART	Industrials	Diversified Support Services
COSTAR GROUP	Financials	Financial Exchanges & Data
DEERE & CO	Industrials	Ag & Farm Machinery
DEXCOM	Health Care	Health Care Devices
DOMINOS PIZZA	Cons Disc	Restaurants
E*Trade	Financials	Investment Banking & Brokerage
EXPEDIA	Cons Disc	Internet & Direct Marketing Retail
iROBOT	Cons Disc	Household Appliances
LENNAR	Cons Disc	Homebuilding
MASTERCARD	Info Tech	Data Processing & Outsourced Svcs.
NETFLIX	Cons Disc	Internet & Direct Marketing Retail
NVDIA	Info Tech	Semiconductors
PALO ALTO NETWORKS	Info Tech	Communications Equipment
PAYPAL	Info Tech	Data Processing & Outsourced Svcs.
RESMED	Health Care	Health Care Equipment
SALESFORCE.COM	Info Tech	Application Software
SPLUNK	Info Tech	Application Software
TD AMERITRADE	Financials	Investment Banking & Brokerage
TESLA MOTORS	Cons Disc	Automobile Manufacturers
TOLL BROTHERS	Cons Disc	Homebuilding
TREX	Industrials	Building Products
WENDY'S	Cons Disc	Restaurants
WORKDAY	Info Tech	Application Software
YELP	Info Tech	Internet Software & Services
ZILLOW GROUP	Info Tech	Internet Software & Services

In Alphabetical Order

REVENUE PERFORMANCE

THE DIGITAL STRENGTH INDEX Q1: 2018

Overall for the quarter, the YoY revenue performance continued to show strength where average revenue came in at $3.32B, slightly less than Q4 2017 by $0.12B. Growth increased by 8.5% compared to 8.1% last quarter, and future growth jumped up to 8.4% versus 6.9%. Next quarter looks to remain steady with growth stretch decelerating by -0.2%.

REVENUE PERFORMANCE FOR THE TOP 1,000 COMPANIES

SIZE	Average revenue generated in the most recent quarter	$3.32 B
GROWTH	YoY revenue growth generated in the most recent quarter	8.5%
% REPORTING POSITIVE REVENUE SURPRISE	% of companies beating analysts’ consensus revenue expectations last quarter	74.3%
MAGNITUDE OF REVENUE SURPRISE	Average amount by which companies beat consensus revenue expectations in the most recent quarter	1.5%
EXPECTATION FOR GROWTH	Revenue YoY growth rate expected for next quarter based on the consensus revenue estimate	8.4%
GROWTH STRETCH	Expected change in YoY growth rates from the most recent quarter to next quarter based on sequential acceleration	-0.2%

Q1 2018: REVENUE PERFORMANCE BY DECILE

For the top decile, revenues grew at an impressive 54.6% which was an increase of ~12% versus last quarter. Growth stretch came in at a respectable 15.4%, however, down from 23.4%.

The bottom 10% disappointed to the downside with overall negative growth of 15.9%, about the same as last quarter. Whereas growth stretch improved from -22.8% to -20.3%.

The proportion of companies reporting a positive revenue surprise still remains high at 74%, which is relatively high historically, where on average we would expect 55-60%.

Magnitude of revenue surprise, averaged around 1.5%, in which top grew by 18.2% and the bottom missed by -8.7%.

Growth stretch for the Index is just barely negative, pointing to possible deceleration. Only 40% of the companies are showing positive acceleration.

%	SIZE ($MM)	GROWTH %	MAGNITUDE OF REVENUE SURPRISE %	GROWTH STRETCH %
100	$19,760	54.6%	18.2%	15.4%
90	$4,867	22.5%	6.0%	3.7%
80	$2,906	15.4%	3.6%	1.3%
70	$1,878	12.4%	2.6%	-0.2%
60	$1,329	9.5%	1.8%	-1.1%
50	$916	7.1%	1.1%	-2.1%
40	$658	4.6%	0.5%	-2.8%
30	$464	2.3%	-0.1%	-5.1%
20	$284	-1.1%	-1.1%	-8.7%
10	$125	-15.9%	-8.7%	-20.3%

Q1 2018: REVENUE PERFORMANCE BY SECTOR

The 11 sectors are sorted by average revenue size. For example, Telecom had $91B in revenue last quarter divided among seven companies. Whereas Information Technology had $445B in revenue divided among 142 companies.

Q1 2018 was an extremely strong quarter from a revenue growth perspective across the board. Every sector grew and eight of the ten sectors positively surprised.

In terms of growth, Information Technology and Energy were the biggest leaders, with Energy looking to continue its momentum as the outlier in growth stretch at 7.0%.

Laggards for this quarter are Financials growing only 2.6% and Telecom growing the least at 1.2%. These two industries were the only two sectors that underperformed relative to expectations.

One sector that we're keeping an eye on is Consumer Discretionary which is expected to slow down 2.6%. Some of the bellwethers within this category are auto companies Ford and GM and retail giants such as Home Depot, Lowe's, Target, and Best Buy.
The results could be seasonal, or perhaps an overall slowdown of consumer spending.

INDUSTRIES	AVERAGE SIZE ($MM)	GROWTH %	MAGNITUDE OF REVENUE SURPRISE %	GROWTH STRETCH %
TELECOM SERVICES	$13,023	1.2%	-0.7%	-1.1%
CONSUMER STAPLES	$8,147	4.3%	1.0%	-1.2%
HEALTH CARE	$4,720	7.0%	0.7%	-1.2%
ENERGY	$4,504	15.3%	0.4%	7.0%
FINANCIALS	$3,140	2.6%	-0.5%	0.5%
INFORMATION TECHNOLOGY	$3,134	17.4%	2.2%	-1.5%
CONSUMER DISCRETIONARY	$2,853	10.4%	2.9%	-2.6%
INDUSTRIALS	$2,797	5.0%	2.1%	1.3%
UTILITIES	$2,446	3.5%	2.8%	-5.7%
MATERIALS	$2,045	13.2%	1.8%	-0.3%
REAL ESTATE	$398	5.1%	1.7%	-1.3%

DIGITAL STRENGTH INDEX & GROWTH

THE DIGITAL STRENGTH INDEX

When dealing with digital, you're dealing with endless amounts of data. Not only is there the challenge of gathering the right data, but also how you interpret it and what it means for your business.

DIGITAL DATA

alpha-DNA collects many different types of digital performance measures from multiple data sources available commercially and publicly. The data is broad-based and includes various data types across websites, search, and social platforms. Data is sourced from multiple providers for the same type of measures to reduce noise. The data sources are continuously re-evaluated and appropriately re-weighted over time. In terms of scale, on a monthly basis, alpha-DNA tracks more than 75 billion digital consumer interactions to hone in on change in velocity across businesses.

DIGITAL BUREAU

Digital identities are defined for the top 1,000 public companies by building, maintaining, and updating a proprietary Digital Bureau of companies and brands. Entity definitions for a company need to be updated continuously, often times manually, and cannot be bought off-the-shelf. Raw digital data is then cleaned and aggregated into time series associated with each digital entity. Furthermore, aggregating all the digital entities owned by a company to represent a single stock ticker has its own weighting and algorithmic complexities. This unique dataset is a key component of the Digital Strength Index's value.

DIGITAL PERFORMANCE

A proprietary scoring system ranks the top 1,000 companies every month on their overall performance strength across digital platforms (site, search, social, app) and consumer effectiveness (penetration, engagement, popularity). A "poll of polls" approach is used to combine many different digital dimensions sourced from multiple datasets to create weighted performance scores.

CONSTRUCTING THE INDEX

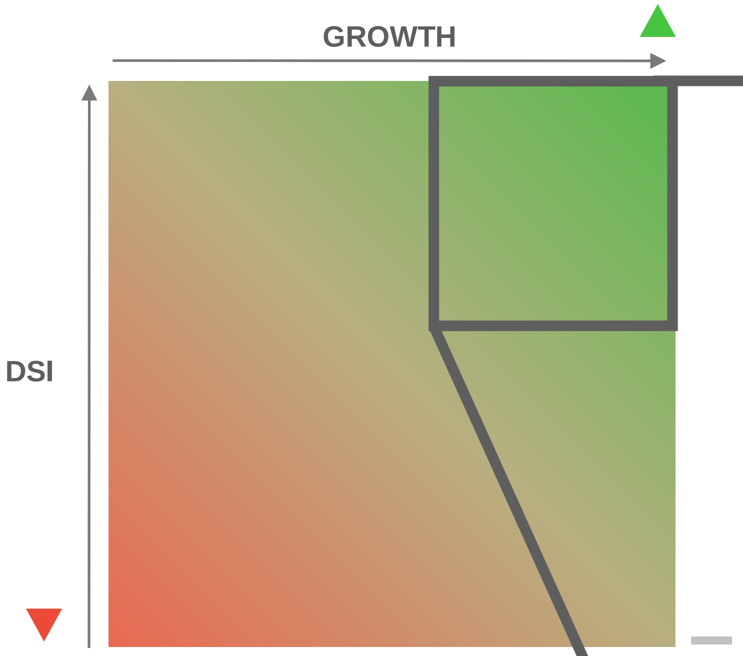
Algorithms systematically establish empirical relationships between digital consumer interaction trajectories and revenue change for each of the top 1,000 companies, looking back two-to-three years in history for each stock every month starting in 2012. More than 2,400 model formulations are considered for each stock ticker at any given point in time (e.g., monthly) to make a robust assessment.

HIGH GROWTH AND HIGH DSI

Companies with a track record of high growth and high DSI are well positioned

TWITTER: Twitter has been able to pull off a revenue turnaround. The company is no longer shrinking, with revenue increasing the last two quarters. Twitter reported its second straight profitable quarter—and the second profitable quarter in company history. Twitter's daily active users also grew 10% year-over-year.[1]

TD AMERITRADE: Online brokers continue to post positive numbers the last three quarters because of the resurgence of volatility in the equity markets, which in turn increases investor engagement and trading.[2] In addition, with the Federal Reserve in interest-rate raising mode, the discount brokerages benefit from the assets on their books that generate interest for them.[3] Obviously, digital is at the heart of these trading platforms. All four brokerages in the DSI have scored in the top quartile the last three quarters.



COMPANY ▲	DSI	YOY GROWTH %
TWITTER	100	21.4
TD AMERITRADE	100	56.5
CALLAWAY GOLF	100	30.5
NVIDIA CORPORATION	99	65.6
THE SHERWIN WILLIAMS COMPANY	98	43.6
FACEBOOK	98	49
NETFLIX	97	40.4
ANALOG DEVICES, INC.	96	25.2
LENNAR CORPORATION	96	27.5
DOMINO'S PIZZA, INC.	95	25.8
PALO ALTO NETWORKS, INC.	94	31.3
TESLA, INC.	90	26.4

LENNAR: Lennar led gains in U.S. homebuilder shares after the company reported robust growth in revenue and orders for its fiscal first quarter, signaling a strong start to the spring selling season. Home builders are benefiting from a buyer rush as rising mortgage rates add urgency to complete deals before costs climb even higher. Job growth, consumer confidence, and the tight inventory of previously-owned homes are also fueling demand.[4] Lennar, Toll Brothers, and Pulte all posted relatively high DSI numbers of 96, 95, and 88 respectively.

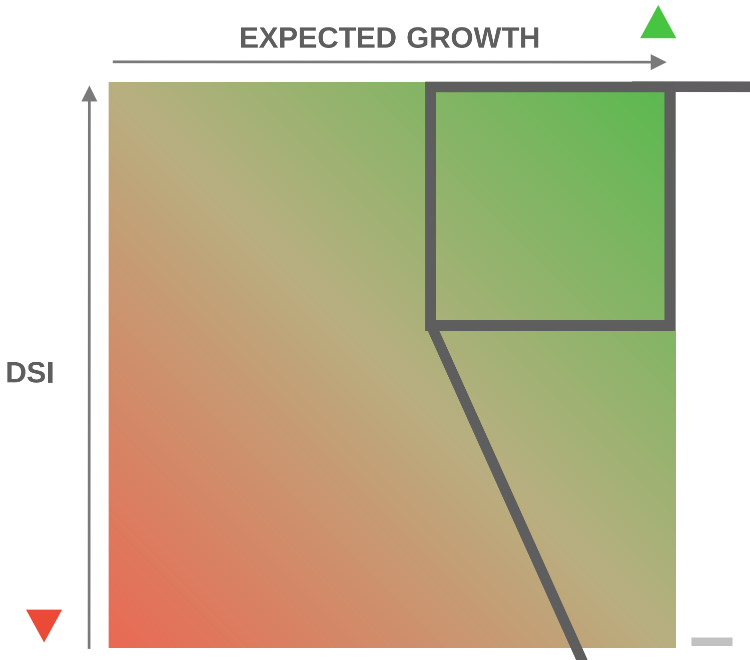
DOMINO'S: In our recent analysis of the pizza industry, we've seen a shift towards delivery and carryout as the growing preference for pizza consumption has accelerated digital disruption in this category. Domino's seems to have led the way in this customer experience transformation as the company has embraced technology, letting pizza lovers order with emojis via a text, tweets, and voice assistants, such as the Alexa-powered Amazon Echo. The company just announced that customers can use its app to order pizza delivery to beaches and other outdoor public places. Domino's continues to perform like a tech stock where its stock is up 64% this year.[5]

PALO ALTO NETWORKS: This company's revenue rose 31% in Q1,[6] and its stock continues to benefit from a market that is growing substantially. Securing data is expected to generate an estimated $93 billion this year.[7]

HIGH EXPECTED GROWTH AND HIGH DSI

Companies expected to grow the most in the future, with a strong digital engine to help achieve those expectations

COPART: Copart, a provider of online auctions and vehicle remarketing services, saw double-digit percentage growth in both sales and earnings as the company strengthened its business in the U.S. and expanded internationally in the third quarter.[8] Last year, the company released its newest version of the Copart Mobile App, available for Apple iOS and Android devices. The Copart Mobile App gives buyers the ability to attend Copart's live auctions from anywhere.[9]



COMPANY ▲	DSI	EXPECTATION FOR GROWTH %
ZILLOW GROUP	100	22.8
WENDY'S	100	27.5
COPART, INC.	99	17.6
ALIGN TECHNOLOGY	99	32.7
AUTODESK INC.	99	19.6
ALPHABET INC.	98	22.6
CHARLES SCHWAB CORPORATION	98	17.2
TOLL BROTHERS	95	21.9
RED HAT, INC.	95	19.3
PAYPAL	94	21.4
SALESFORCE.COM, INC.	92	25.9
SPLUNK	91	27.9

AUTODESK: Autodesk makes software for architecture, engineering, construction, manufacturing, and media firms. It's positive near-term results have been heavily impacted by its strategic decision to pursue a subscription business model aligned to the software consumption trends of the current IT environment.[10] Subscription revenues (62.6%) soared 102.1% year-over-year to $350.4 million.[11] Last year on CNBC, CEO Andrew Anagnost explained, "Infrastructure is a big story everywhere. Aging infrastructure, the need for new infrastructure—all of those are signs of growth. Construction, and the industrialization of construction, and the rise of the cloud on the construction site—that's going to be a bit of growth opportunity for Autodesk."[12]

PAYPAL: In Q1, PayPal had revenue of $3.69 billion, higher than analysts' projections of $3.59 billion, signaling the company is weathering the loss of eBay. Dan Schulman, PayPal's CEO is pushing for PayPal to become a more versatile financial tool rather than just a payment button on a website, and to expand access across the financial services industry. PayPal's popular peer-to-peer payments system has continued to see strong growth, but it has yet to be a key revenue driver.[13]

SALESFORCE: Once again, Salesforce reported a topline beat for Q1, with revenue of $3.01 billion topping analyst expectations by $70 million. Salesforce has beaten revenue-growth expectations for 12 consecutive quarters, a three-year streak. For fiscal year 2019, the company forecasts $13.1 billion in revenue, a year-over-year growth rate of approximately 30%. At this rate, Salesforce may eclipse CEO Marc Benioff's audacious goal of $60 billion in annual revenue by 2034.[14] Salesforce's overall DSI score has trended up the last three quarters scoring 84, 88, then 92.

HIGH STRETCH AND HIGH DSI

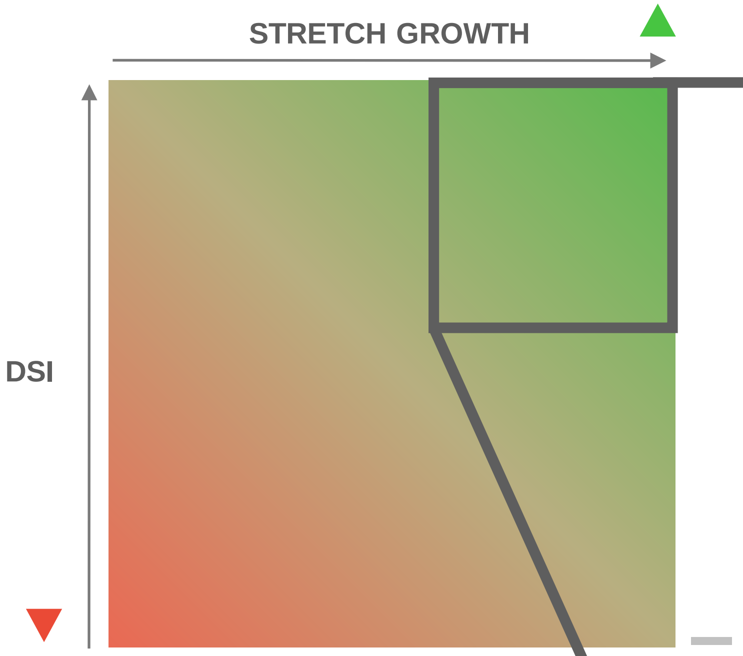
Companies for whom growth is expected to accelerate the most plus strong DSI give good reason to believe in transformation

COSTAR: CoStar, the leading provider of commercial real estate information, analytics, and online marketplaces, announced revenue for the quarter ended March 31, 2018, was $274 million, an increase of 21% over revenue of $227 million for the first quarter of 2017. With Apartments.com and now with recently acquired ForRent.com, the company continues to strengthen its lead as the number one apartment internet-listing service [15]

TREX: Leading wood-alternative decking manufacturer Trex once again delivered strong double-digit revenue where sales increased 18%. Trex's recent success has been driven in part by a healthy economy and strong spending for outdoor home improvement products.[16] Trex has a unique business model: its composite decking is comprised of 95% recycled materials, including plastic bags, stretch wrap, and post-industrial waste blended with material from flooring manufacturers and sawdust.[17] Trex has scored extremely high in the DSI relative to its sub-industry of Building Products where Trex has averaged a score of 87 versus 51 for its peer set the past three quarters.

KORS: In the tough retail landscape, Michael Kors appears to have righted the ship. Sales were up nearly 11% last quarter. However, most of its growth came from acquisitions in which Jimmy Choo accounted for about $108 million of Kors' total sales.[18] Regardless, the company appears to have gained some momentum, and if it can continue to capitalize on its Runway 2020,[19] the company's digital strength should help facilitate future growth.

LOWE'S: Lowe's reported disappointing first-quarter numbers thanks to unseasonably cold weather in parts of the country that likely delayed many outdoor home improvement projects.[20] By contrast, improved macroeconomic conditions are favoring home retailers Home Depot and Lowe's. Lowe's is investing in an omni-channel retail strategy to enhance customer experience to make it easier to engage with the company's interior and exterior home-project specialists. An integrated retail channel is likely to remain a key growth driver for Lowe's as customers look for convenience to shop for products and visualization tools to virtually "try" products to understand how they would look in their homes.[21] Regarding the DSI, Lowe's has averaged about 20 points higher in the DSI versus Home Depot the last three quarters.



COMPANY ▲	DSI	GROWTH STRETCH %
MICROSOFT	100	4.5
COSTAR GROUP, INC.	99	3.0
OVERSTOCK.COM	97	6.8
MGM RESORTS INTERNATIONAL	97	8.7
TREX COMPANY, INC.	97	2.6
MASCO CORPORATION	97	3.6
CINEMARK HOLDINGS, INC.	94	17.2
SEATTLE GENETICS, INC.	93	2.2
MICHAEL KORS	92	4.9
LOWES	92	3.8
ROYAL CARIBBEAN CRUISES LTD.	91	5.1
MARRIOTT INTERNATIONAL	87	10.9

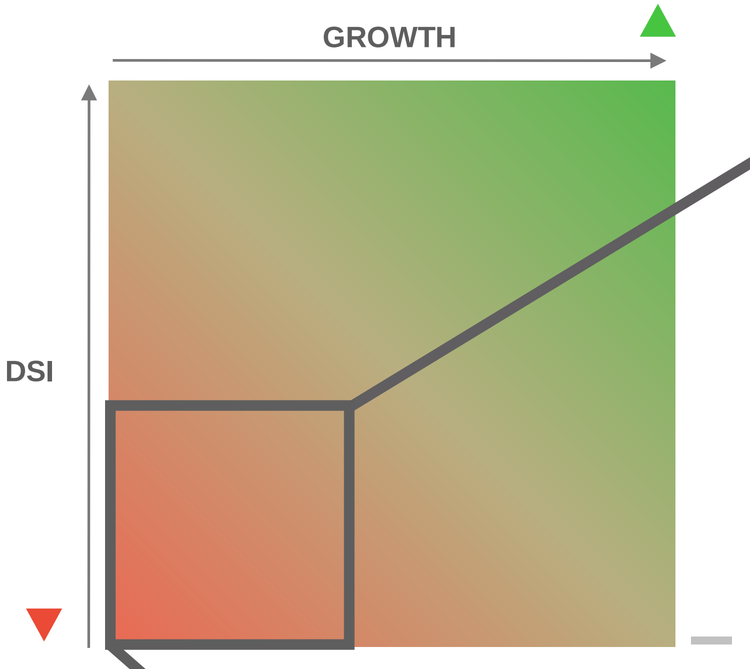
DECLINING GROWTH AND LOW DSI

Companies with a track record of poor growth and low DSI suggests serious headwinds in the future

RITE AID: Rite Aid has been fighting to stay afloat. Unfortunately its acquisition by Walgreen's was scrapped, but the company was still able to sell 2,186 of its stores to Walgreen's for $5.18B.[22] With proceeds from the transaction, Rite Aid is trying to both pay down debt and invest in new services and capabilities. While the retailer expands its service offerings, it continues to invest in its omni-channel capabilities to meet shopper demand. "We'll continue to strengthen our omni-channel experience so that we can further leverage enhanced customer data to drive our business," explains COO Kermit Crawford.[23]

ALLIANCE DATA SYSTEMS: Alliance Data is the engine behind loyalty and marketing campaigns for more than 1,000 consumer-facing companies worldwide across all industries. They manage more than 160 branded credit programs—private label, co-brand, and commercial—for the world's most recognizable brands.[24] Alliance Data's revenues came in at $1.88 billion, up 0.3% year-over-year [25] For the last three quarters, the company has averaged a score of 26 versus its sub-industry of Data Processing and Outsourced Services score of 56. It's a bit confounding as companies associated with payments and credit cards have been showing strong revenue growth and posting high DSI numbers, magnifying Alliance Data's underperformance.

EXPRESS SCRIPTS: As we continue to analyze the healthcare industry, M&A has been a main point of focus; specifically, CVS and Aetna, and Cigna's acquisition of Express Scripts. Cigna pursued Express Scripts with the idea that the two could further Cigna's goals of value-based care delivery by managing the medical, pharmacy, and behavioral aspects of healthcare holistically, and also to rein in pharmacy spending, one of its main drivers of healthcare costs. However, when you look at Express Scripts DSI score against its peer set, it scores on the lower end averaging 31.6 versus Healthcare Services as a group scoring 48.3.[26]



COMPANY	DSI	YOY GROWTH %
BERKSHIRE HATHAWAY INC.	1	-22.6
TENET HEALTHCARE CORPORATION	1	-2.5
INGREDION INCORPORATED	4	1.1
MYLAN N.V.	4	-1.4
TRANSOCEAN LTD.	5	-15.4
UNIVERSAL HEALTH SERVICES	5	-4.9
LIFEPOINT HEALTH	7	-1.7
GILEAD SCIENCES, INC.	10	-21.8
L3 TECHNOLOGIES	12	-11.2
RITE AID CORP.	14	-36.9
ALLIANCE DATA SYSTEMS CORPORATION	18	0.3
EXPRESS SCRIPTS HOLDING COMPANY	19	0.5

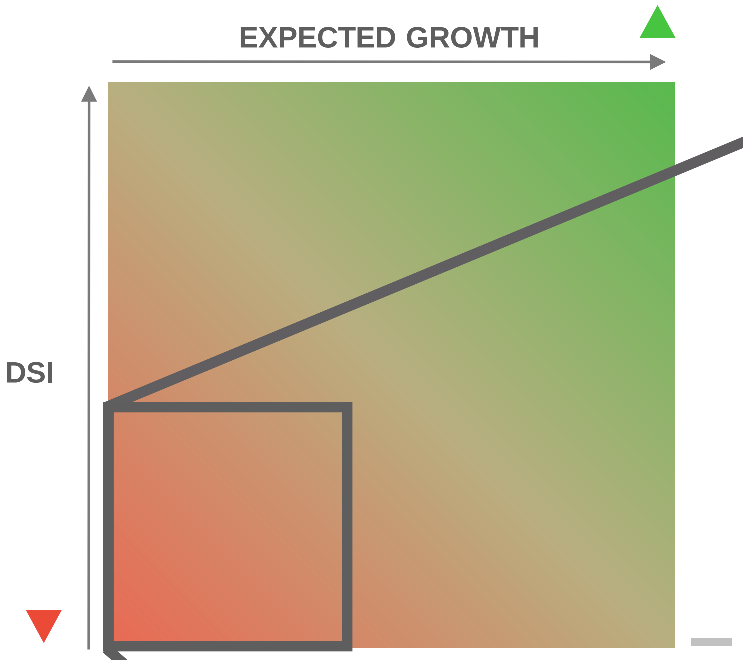
LOW EXPECTED GROWTH AND LOW DSI

Companies that are expected to shrink the most in the future and lack digital strength to help turn the tide

FLUOR: Fluor has consistently found itself in the bottom quartile over the past three quarters. In general, while the sub-industry Construction and Engineering scores 25 or lower in the DSI, Fluor's DSI has been at the bottom with a score of 1. For Q1, revenue was $4.8 billion which was flat compared to a year ago.[27]

LIONSGATE: Lionsgate's overall fourth quarter revenue came in at $1.04 billion, down from a year earlier of $1.25 billion due to lower theatrical movie business.[28] Lionsgate, which also owns Starz, has to navigate the new ecosphere created by Netflix. When asked about diminishing subscriber growth, Kevin Beggs, Chairman of Lionsgate TV, simply states, "You have to have better shows, you have to have hits people can't live without." And regarding the relationship with Netflix, he finds them both friend and foe. "[Netflix] are fantastic partners, but we believe we can be competitive in the same ecosphere." [29]

QUALCOMM: Even though Qualcomm beat analyst estimates last quarter, albeit ~13% lower year-over-year, the company still faces headwinds of a softer handset market, particularly in China, and also a high profile infringement battle with Apple.[30]

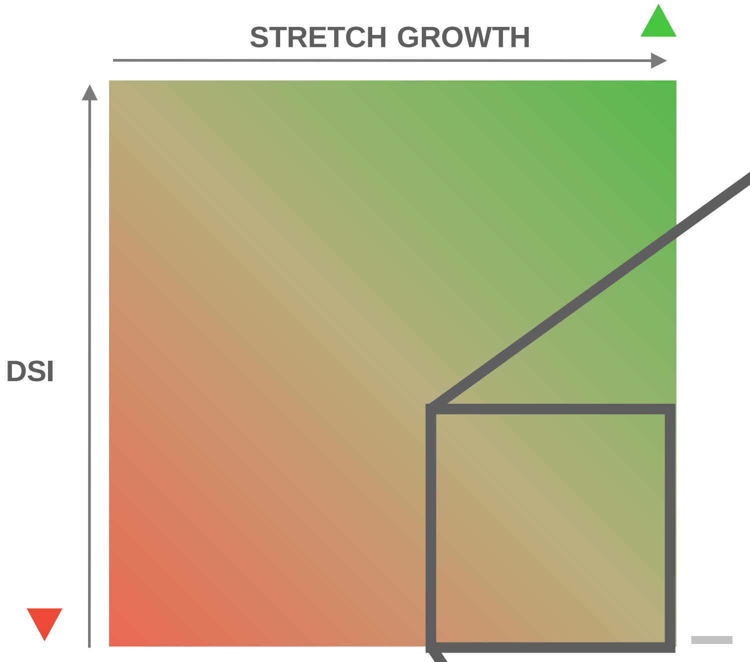


COMPANY	DSI	EXPECTATION FOR GROWTH %
FLUOR CORPORATION	1	-2.6
LIONSGATE ENTERTAINMENT CORPORATION	1	-10.8
NEW YORK COMMUNITY BANCORP, INC.	2	-7.2
LAZARD	3	-5.2
DIAMOND OFFSHORE DRILLING, INC.	4	-28.6
ALTRIA GROUP, INC.	8	-1.3
THE INTERNATIONAL PAPER COMPANY	9	0.5
FIDELITY NATIONAL FINANCIAL, INC.	9	-7.9
CHUBB LIMITED	14	-1.3
LEGG MASON, INC.	16	-4.7
VOYA FINANCIAL	18	-9.3
QUALCOMM	19	-1.7

HIGH STRETCH AND LOW DSI

Companies with strong DSI in which growth is expected to accelerate the most, but are at risk of disappointing due to weak digital fundamentals

AES: AES has underperformed from both a digital and revenue standpoint, but according to Chris Shelton, VP and CTO, digital is not lost on the company. “Digital solutions are a multiplier of value, making both existing systems and investments in new forms of energy more profitable. AI can ensure we utilize the millions of connected assets on the electricity grid to their full potential, from utility scale solar and wind farms down to the washing machines and toaster ovens in our homes. Improved awareness, classification, and prediction of outcomes made possible by digital intelligence will enhance business value for utilities and energy consumers alike, fundamentally enabling more abundant and sustainable power for society.”[31]



FIRST DATA: Payments has been an industry with a lot of momentum. First Data, once the group laggard, looks to have turned the corner. The acquisitions of CardConnect and BluePay not only helped with revenue, but also gave First Data new and innovative capabilities allowing it to compete with its rivals on a level playing field. CardConnect offers vendors real-time transaction management, mobile app payment acceptance, regulatory compliance management, and tokenized transactions. BluePay bolsters First Data's eCommerce competency.[32]

EAGLE MATERIALS: For Eagle Materials, even though results have been decent, the numbers have been bolstered by acquisitions as well as the recent tax cuts. The company contends, “We believe we have better-than-average visibility on the prospects for our business over the next two years. And these prospects are very good indeed. We feel it would take a lot to derail the train right now.”[33] While other construction and homebuilding companies have been outperforming, companies within the same industry that aren’t participating in the up-trend need to be viewed cautiously, especially when their digital score is on the low end.

COMPANY	DSI	GROWTH STRETCH %
ALLEGHANY CORPORATION	1	12.8
ASSURANT, INC.	2	40.8
THE AES CORPORATION	2	11.1
DEVON ENERGY CORPORATION	3	12.2
GENERAL DYNAMICS CORPORATION	3	15.2
PACIFIC GAS AND ELECTRIC COMPANY	5	5.8
QUANTA SERVICES	5	6.1
FIRST DATA CORPORATION	6	2.6
NEWFIELD EXPLORATION COMPANY	6	8.6
MURPHY OIL CORPORATION	7	39.2
ANADARKO PETROLEUM CORPORATION	8	30.3
EAGLE MATERIALS INC.	20	8.4

MARKET
LANDSCAPE

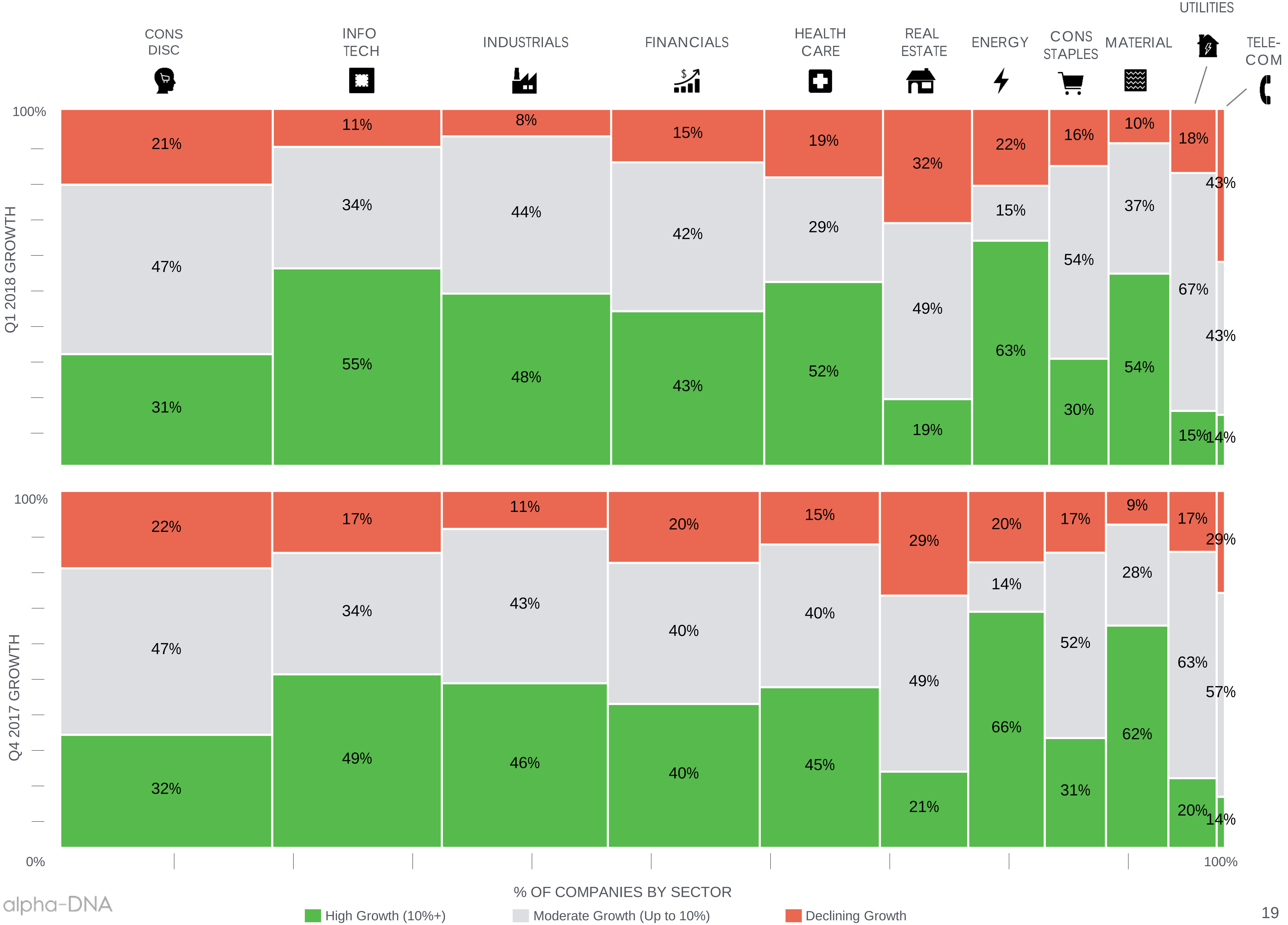
GROWTH: Q1 VS. Q4

For the following charts, the width of the columns are determined by the number of companies within the sector. For example, there are seven companies within Telecoms and 141 companies within Industrials.

As mentioned, Q1 continued the strong revenue growth trend of the previous quarters. Every sector showed positive growth and as a group grew 8.5%.

Leaders this quarter were Information Technology and Energy.

INFO TECH: The industry leading IT has been semiconductors, with companies like Nvidia, Advanced Micro Devices, Lam Research, and Applied Materials all posting strong numbers. Nvidia and Advance Micro Devices have been riding the wave of graphic processing units (GPUs) growth, facilitated by cryptocurrency mining.



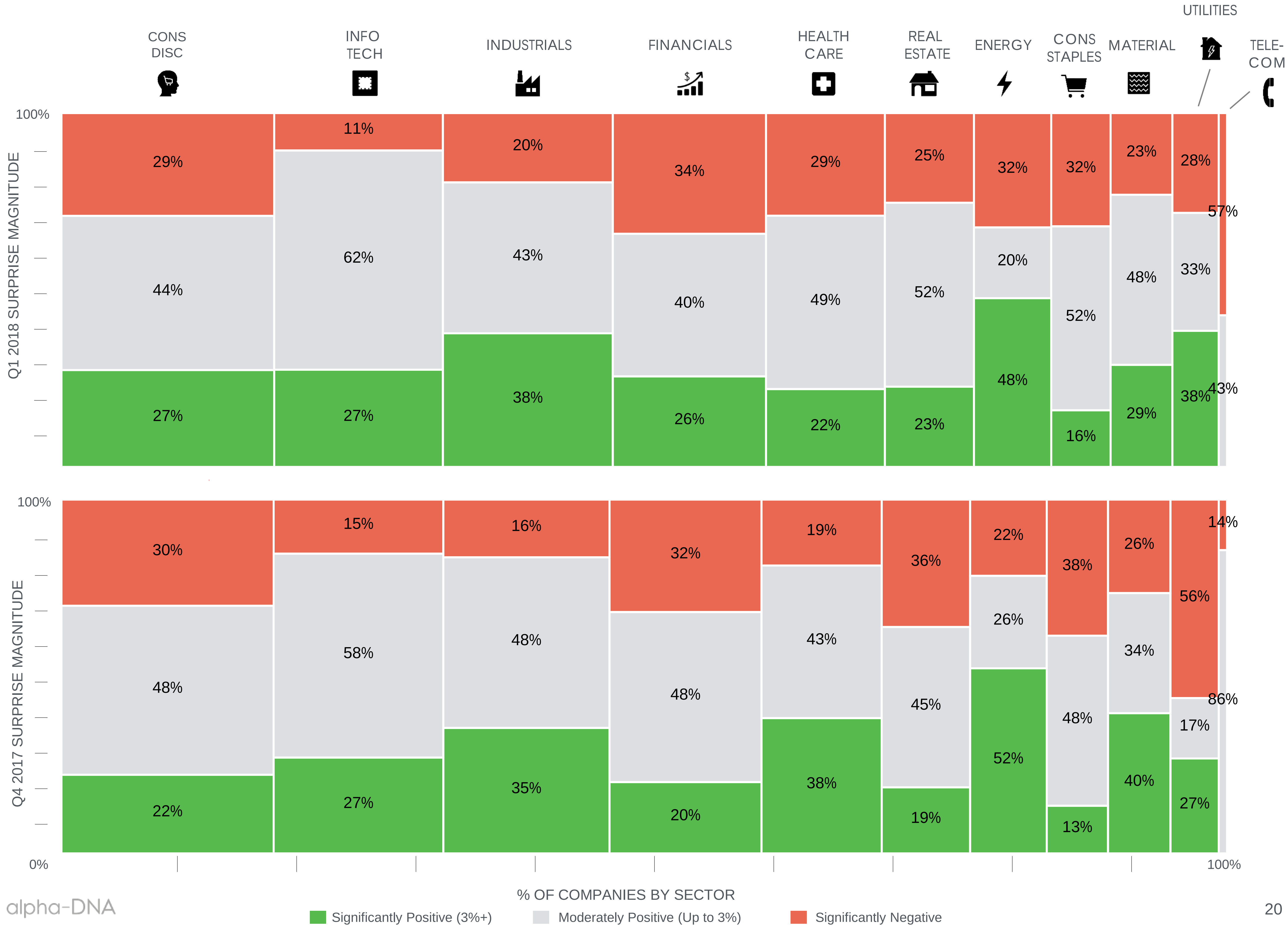
SURPRISE MAGNITUDE: Q1 VS. Q4

Eight of the ten sectors surprised to the upside. Financials and Telcom were the sectors that missed expectations.

Consumer Discretionary and Utilities both surprised to the upside by almost 3%. The index in total had a magnitude of revenue surprise of 1.5%.

74.3% of the companies beat to the upside vs. 73.7% for Q4, where on average we would expect 55-60%.

FINANCIALS: 67% of the companies within the Financials sector did not meet expectations in Q1. Dragging the sector down were industries such as Life and Health Insurance, with companies like Principal Financial Group and MetLife, and for Asset Management, companies like Federated Investors and Eaton Vance. All Diversified Banks disappointed except JPMorgan Chase. As of June 26, bank stocks are on their longest losing streak ever.[34]



EXPECTED GROWTH: Q1 VS. Q4

We continue to see a strong revenue growth trajectory for the top 1,000 companies. Looking forward, we expect the group's revenue YoY growth rate for next quarter to increase by a healthy 8.4%, even larger than last quarter's 6.9%.

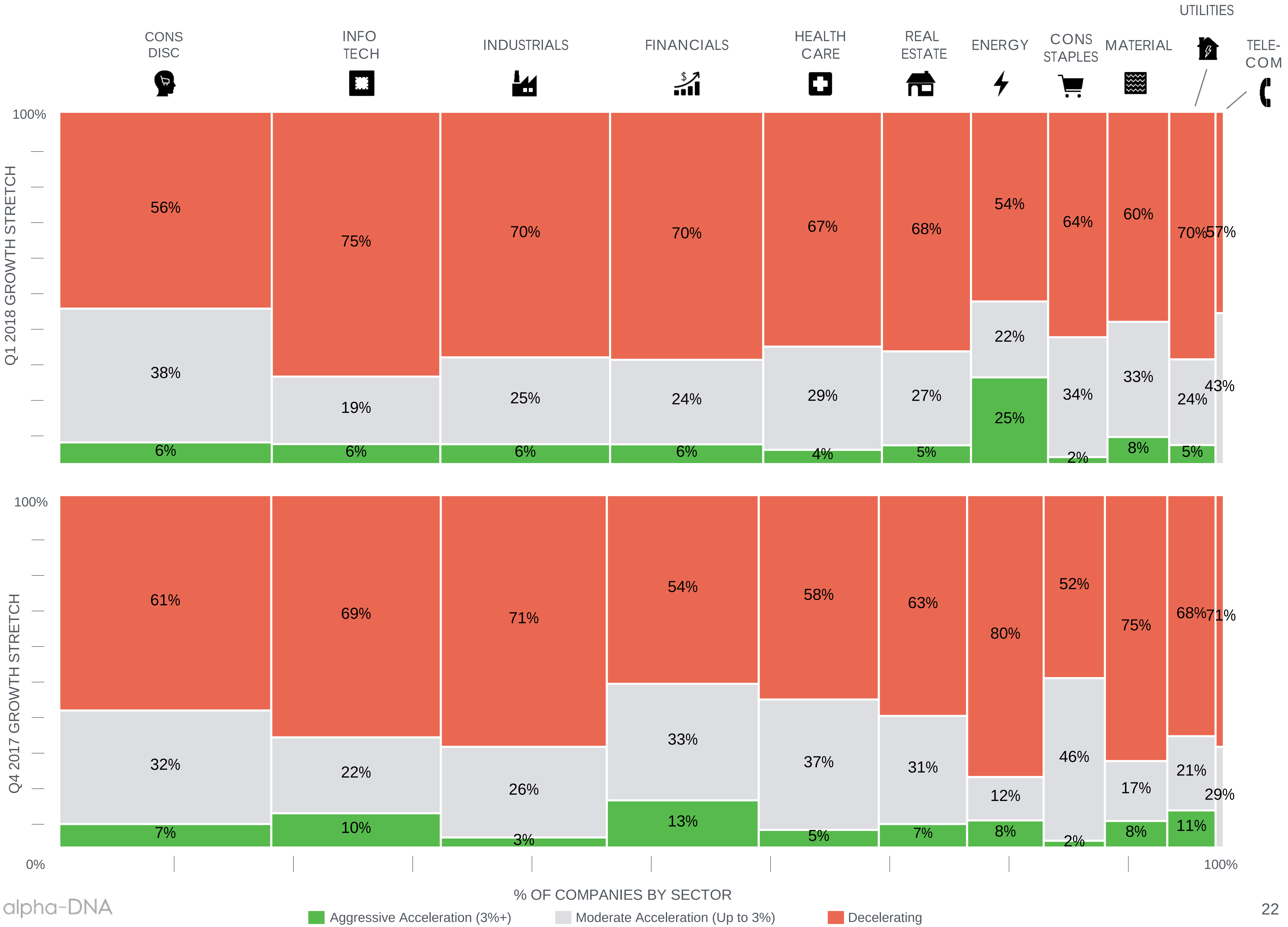
ENERGY: Continuing to be one of the leading sectors, Energy again posted strong numbers. Compared to Q4, "aggressive acceleration (3%+)" is expected to jump by 13%. Energy stocks are benefitting from relative underperformance since 2016, but mainly on rising oil prices and a better supply/demand outlook.[35]

A few examples of companies leading the Energy sector in both DSI and expected revenue are Helmerich & Payne (88), Chevron (85), and Halliburton (83).

GROWTH STRETCH: Q1 VS. Q4

Because revenue growth has been extremely strong, we would expect things to slow down a bit. This quarter only three sectors look to accelerate in Q2, led by Energy, coming in at 7.0%. For the entire index, we expect growth to decelerate only slightly at -0.2%.

CONSUMER DISCRETIONARY: Perhaps a canary in the coal mine, we'll be watching the Consumer Discretionary sector as it shows a deceleration of -2.6%. Only 30% of the companies within this sector are showing positive growth stretch for Q2. Consumer Discretionary encompasses such industries as automobiles, durables and apparel, consumer services, media, and retail. These types of companies are sometimes viewed as a leading indicator of the overall economy because they are tied to disposable income and consumer spending patterns.[36]



Digital Strength may be the most important determinant of business health and future growth not being measured or managed by enterprises today. Managing against this measure is essential for all businesses that want to grow—if not survive.

Not only do we believe companies should be tracking their Digital Strength, they should also approach digital the same way that digital businesses do: build digital scale and strength before pursuing monetization. All too many traditional corporations make the mistake of applying the same metrics and hurdle rates to digital as they do to their other channels.

Companies should rethink how they develop business cases for possible digital investments.

To properly account for the disproportionate impact of digital on future revenues and shareholder value, companies might want to value digital revenue and digitally-influenced revenue higher than traditional channels.

They need to consider whether a loss of market share is an indication that they are not investing enough in digital. Few business cases include the cost of doing nothing, but they should.

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Tonya has over 16 years of experience delivering large-scale digital solutions in a variety of industries. As a trusted advisor, Tonya collaborates closely with her clients across all aspects of digital project delivery to ensure that expectations are exceeded at each stage. Her past work has varied from business planning, consumer research, and strategy development to design, build, and support of enterprise-scale platforms to marketing campaign planning, execution, and optimization.

Tonya was a founding member of pioneering digital agency Roundarch, which became Isobar US in 2013. Her clients have included Wyndham Vacation Ownership, Exelon, Country Financial, Sony, Time Warner Cable, and Northern Trust. Tonya has a BS and MS in Industrial Engineering from the University of Michigan.

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